

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Ruth Y. Goldway, Chairman;
Mark Acton, Vice Chairman;
Nanci E. Langley; and
Robert G. Taub

Modification of Analytical Principles
in Periodic Reporting
(Proposals Four through Eight)

Docket No. RM2011-12

ORDER CONCERNING ANALYTICAL PRINCIPLES
FOR PERIODIC REPORTING
(PROPOSALS FOUR THROUGH EIGHT)

(Issued October 21, 2011)

I. INTRODUCTION

In Order No. 203, the Commission adopted periodic reporting rules pursuant to 39 U.S.C. 3652.¹ Those rules require the Postal Service to obtain advance approval, in a notice and comment proceeding under 5 U.S.C. 553, whenever it seeks to change the analytical principles that it applies in preparing its periodic reports to the Commission required by section 3652.

On August 8, 2011, the Postal Service filed a petition pursuant to 39 CFR 3050.11 requesting that the Commission initiate an informal rulemaking proceeding to

¹ Docket No. RM2008-4, Notice of Final Rule Prescribing Form and Content of Periodic Reports, April 16, 2009 (Order No. 203).

consider five proposals to change the analytical methods approved for use in periodic reporting.² The proposals are labeled Proposals Four through Eight.

Proposal Four introduces a new method for developing revenue, pieces, and weight estimates based on the Foreign Postal Settlement (FPS) system.

Proposal Five changes the treatment of mail processing costs associated with Flats Sequencing System (FSS) operations by assigning such costs to a new FSS cost component within Cost Segment 3, Mail Processing.

Proposal Six modifies the mail processing cost model by establishing several additional cost pools for certain special service activities in non-Management Operating Data System (MODS) post offices that are analogous to cost pools in MODS post offices.

Proposal Seven changes the “all pools” distribution key used to distribute MODS allied labor costs by relying only on direct tallies from mail processing operations at MODS post offices in the development of that key and excluding direct tallies from International Service Centers (ISCs).

Proposal Eight updates the assumption that all Express Mail delivered on city delivery routes is accountable mail with information from the City Carrier Cost System (CCCS).

The Commission approves Proposals Four through Eight. Each proposal is discussed below.

II. PROPOSAL FOUR—PROPOSED CHANGE IN METHOD OF REPORTING REVENUE, PIECES, AND WEIGHT FOR INBOUND INTERNATIONAL MAIL

A. Postal Service Proposal

The Postal Service proposes to change the current method for estimating revenue, pieces, and weight for Inbound International Mail products presented in the

² Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposals Four - Eight), August 8, 2011 (Petition).

Revenue, Pieces and Weight (RPW) report. Proposal Four incorporates the Postal Service's new method for developing revenue, pieces, and weight estimates based on the FPS system—an accounting accrual system for settlement payments between foreign postal administrations and the Postal Service related to the exchange of international mail. The FPS system, implemented in January 2010, will replace the current settlement payment accrual system used in the International Cost and Revenue Analysis (ICRA) report.³ Proposal Four also completes the Postal Service's transition to accounting methods for international mail that are consistent with those used in the Postal Service's audited financial statements.⁴

Currently, the Postal Service estimates revenue for six major inbound products using the inbound product volumes from a prior year ICRA report to develop a distribution key or allocation percentage.⁵ That distribution key is then applied to amounts recorded in two General Ledger (GL) accounts in the Postal Service's book of accounts to derive inbound revenue by product presented in the RPW report. The GL accounts are GL 41699.000, Interactive Revenue, consisting of revenues from settlement payments, and GL 41601.000, Gain or Loss on Foreign Exchange. Where this method is used to estimate inbound product revenues, current year pieces and weight information are not reported for those inbound products. *Id.* at 4.

Under Proposal Four, the new method would use data from the FPS system to develop revenue, pieces, and weight for the six inbound products. The FPS system

³ The ICRA report presents revenues, costs, and volumes for each of the Postal Service's outbound and inbound international mail products. See Docket No. ACR2010, Library Reference USPS-FY10-NP2, Excel file Reports (Booked).xls, December 29, 2010.

⁴ See Docket No. ACR2008, Annual Compliance Determination, March 30, 2009, at 12-13; see also Docket No. RM2009-10, Order on Analytical Principles Used in Periodic Reporting (Proposals Three Through Nineteen) November 13, 2009, at 19-21 (Order No. 339); Docket No. ACR2010, Response of the United States Postal Service to Questions 1-31 of Chairman's Information Request No. 1, January 24, 2011, question 22 (Docket No. ACR2010, Response to CHIR No. 1).

⁵ The six inbound mail products are: Inbound International Single-Piece Letter-Post, Inbound International Surface Parcel Post (at UPU Rates), Inbound International Ancillary Services [Registered Mail], Inbound International Expedited Services, Inbound Air Parcel Post, and Inbound Surface Parcel Post (at non-UPU Rates). Petition at 5.

compiles piece and weight data on inbound mail from transaction billing documents/electronic messaging. Using that data, the FPS system will post revenue to the GL 41699 account monthly based upon the number of inbound pieces processed in a month, as well as an accrual of revenue reflecting an estimate of the number of pieces received but not yet processed. *Id.* at 6. When final settlement does occur, generally months after the close of the calendar year, the difference between the accrued revenue and the final settlement revenue from the prior year will be posted to the GL 41699 account. *Id.* In addition, the pieces and weight data from the FPS system used to estimate revenue for each of the inbound products will be reported in the RPW. The Postal Service proposes to implement the new method beginning October 1, 2011 (Q1, FY 2012). *Id.* at 4.

Proposal Four would also change the reporting of prior year settlement revenues and currency gains and losses on foreign exchange. As discussed above, prior year settlement revenues and currency gains and losses recorded in the GL 41699 and GL 41601 accounts, respectively, are currently distributed to the inbound products. The Postal Service proposes to report prior year settlement revenues and currency gains and losses as "Other Mailing Services Revenue" (Market Dominant) and "Other Shipping Services Revenue" (Competitive) in the RPW report. *Id.* at 8.

The Postal Service explains that the FPS system is able to isolate prior year from current year settlement revenues, which are recorded separately for market dominant and competitive inbound international products. *Id.* However, the FPS system only records the total amount of currency gains and losses. *Id.* For this reason, the Postal Service proposes to distribute currency gains and losses to Other Mailing Services Revenue (Market Dominant) and Other Shipping Services Revenue (Competitive) using the corresponding distribution of market dominant and competitive settlement revenues reported in the GL 41601 account. *Id.*

The Postal Service asserts that use of FPS system accounting data will substantially improve the accuracy of reporting on inbound international products in the RPW. *Id.* at 9. Proposal Four would replace the ICRA distribution key that uses prior

year data for estimating inbound revenues with more timely data from the FPS system. *Id.* In addition, revenue, pieces, and weight information would be reported at a greater level of detail than currently, including the reporting of current year pieces and weight information for the first time for the inbound products. *Id.* Proposal Four would also implement the separate reporting of current year settlement revenues from prior year settlement revenues and currency gains and losses, which have “no correlation” to the current year and thereby “distort revenue, pieces and weight relationships.” *Id.* at 8.

Finally, the inbound mail categories presented in the RPW report would be revised to align more closely with the proposed Mail Classification Schedule (MCS).⁶ In this regard, the Postal Service intends to introduce a new mail reporting category for “Inbound International Multi-Service Agreements with Foreign Posts” in both the Market Dominant and Competitive sections of the RPW report. Petition at 8. The Postal Service also proposes to make several technical corrections to ensure that its reporting of revenue is consistent with the proposed MCS.

To estimate the impact of Proposal Four, the Postal Service compares the reporting of revenue, pieces, and weight for FY 2011, quarter 2 under the current method and the proposed new method, presented in Attachment B.⁷ The analysis shows an increase in Total Shipping Services (Competitive) revenue of \$11.1 million, which is offset by a reduction in Total Mailing Services (Market Dominant) revenue of \$11.1 million. See Attachment B. These changes reflect the exclusion of prior year settlement revenues and currency gains and losses from the products and the separate reporting of those revenues, gains and losses under the new method. Attachment B; Petition at 10-11.

⁶ See Docket No. RM2011-8, Order No. 666, Notice of Proposed Rulemaking Concerning Mail Classification Schedule, February 7, 2011.

⁷ See Excel file Prop.4.FPS.Attach.B.Public.xls (Attachment B). The Postal Service also filed under seal a non-public version of Attachment B. The non-public version disaggregates data for certain product categories that are masked in the public version of Attachment B, and thereby provides additional data for those categories that are used in Commission analysis. See Prop.4.NONPUBLIC.FPS.Attach.B.xls.

For market dominant products, pieces and weight (in pounds) increase by 91.4 million (0.2 percent) and 27.5 million (0.7 percent), respectively. For competitive products, pieces and weight (in pounds) increase by 9.3 million (2.6 percent) and 57.4 million (7.4 percent), respectively. Transactions for market dominant and competitive special services increase by 5.5 million (1.2 percent) and 16,000 (0.1 percent), respectively. The increases in pieces (and transactions) and weight reflect the expanded capabilities of the FPS system.

For the Postal Service as a whole, Total All Revenue presented in the RPW report is unchanged under the new method and is reconciled to the Postal Service's book of accounts. *Id.* at 12. Pieces and weight information reported for Total All Mail increases by 100.6 million (0.2 percent) and 84.9 million (1.7 percent), respectively. Special services transactions reported for Total All Services increase by 5.5 million (1.1 percent).

B. Participant Comments

Comments were filed by the Public Representative.⁸ No other interested person submitted comments. The Public Representative recommends Commission approval of Proposal Four as use of the FPS system is “reasonable” for estimating revenue, pieces and weight. *Id.* at 2-3. However, the Public Representative observes that the revised RPW report “does not exactly match the official Product List,” noting that revenue, pieces and weight for the Inbound International Money Transfer Service and Outbound International Money Transfer Service products will be combined and presented in the RPW report as a single mail category—International Money Orders and Money Transfer Service. *Id.* at 3. The Public Representative maintains that product-level data are important for purposes of compliance reporting. *Id.*

⁸ Public Representatives Comments in Response to Order No. 810, September 9, 2011, at 2-3 (PR Comments).

C. Commission Analysis

The Commission approves the change in methodology described in Proposal Four. The Commission concurs with the Postal Service that the reporting of revenue, pieces and weight information for inbound international products in the RPW report can be substantially improved by using the FPS system. The FPS system should produce more accurate settlement amounts than the current method.

The Commission notes the Public Representative's concern that the RPW report does not exactly match the market dominant and competitive products displayed on the product list. The Commission expressed similar concerns in its FY 2010 Annual Compliance Determination (ACD) report and directed the Postal Service to present revenue and pieces for each market dominant stand-alone special service in the RPW report.⁹

However, not all competitive products are presented in the public version of the RPW report. This reflects the fact that certain reporting categories often mask non-public information for more than one competitive product. With respect to International Money Transfer Service (IMTS), the Postal Service proposes reporting IMTS as a single category in the RPW report, consistent with the reporting of IMTS in the Cost and Revenue Analysis (CRA) report.¹⁰ Separate reporting for the IMTS-Outbound and IMTS-Inbound products will continue to be provided in the ICRA report. *Id.* Moreover, the Postal Service is required to provide product information at this level of detail in the RPW Extract file, which the Postal Service should provide to the Commission to facilitate its review of the Postal Service's Annual Compliance Report (ACR).¹¹

⁹ Docket No. ACR2010, Annual Compliance Determination, at 126.

¹⁰ Docket No. RM2011-5, Order on Analytical Principles Used in Periodic Reporting (Proposals Ten Through Twelve), May 4, 2011, at 6-8 (Order No. 724).

¹¹ See Docket No. ACR2010, Response to CHIR No. 1, question 29. The RPW Extract file currently contains reporting categories for both IMTS-Outbound and IMTS-Inbound. However, IMTS-Outbound and IMTS-Inbound data on revenue and pieces are combined and presented in the

III. PROPOSAL FIVE—NEW MAIL PROCESSING COST POOL FOR FLAT SEQUENCING SYSTEM OPERATIONS

A. Postal Service Proposal

The Postal Service proposes to create a separate cost pool within CRA Cost Segment 3.1 for FSS operations. Currently, FSS costs are assigned to the AFSM 100 cost pool.¹² Petition at 13. The Postal Service explains that the FSS is a new system for handling flats and that its scale has increased rapidly since 2010. The addition of a new cost pool to reflect significant changes in postal operations due to new equipment deployment is consistent with past costing practices. The Postal Service also believes the FSS may have a distinct mail mix (e.g., non-saturation carrier route presort flats), further justifying a separate cost pool. For these reasons, the Postal Service proposes to establish a separate cost pool.¹³ The Postal Service adds that the Commission anticipated the Postal Service reporting FSS processing operations separately in the 2010 ACR. *Id.* at 13.

B. Participant Comments

Comments were filed by the Public Representative. Despite concerns about the reliability of the MODS data, the Public Representative recommends approving Proposal Five. PR Comments at 3-4. She notes that the Postal Service neither demonstrated the reliability of the MODS data for the FSS, nor specified whether data will be collected from all machines. She assumes that the Postal Service submitted

IMTS-Outbound reporting category. The Commission anticipates that the RPW Extract file will begin separately reporting revenue and pieces for IMTS-Outbound and IMTS-Inbound. See Order No. 724, Proposal Eleven.

¹² In FY 2010, the Postal Service reported a total of 539,044 hours (or roughly \$22.8 million) for clerks and mail handlers were included in the AFSM 100 cost pool. ACR2010, CHIR 4 Q.3b at 10. An additional 1,120 hours were accrued in the NDCs. ACR2010, USPS-FY10-LR-7, Part 1.

¹³ The Postal Service proposes tracking FSS mail processing costs using two MODS operations: the Stand-Alone Mail Prep Machine (operation code 530) and the FSS Sorter (operation code 538). It believes the FSS cost pool should consist of MODS data collected in these two interrelated operational codes. *Id.* at 13-14.

Proposal Five because the FSS data may now be more reliable than in the past, but notes the Postal Service did not offer this rationale to support its proposal.

C. Commission Analysis

The Commission accepts the rationale set forth by the Postal Service and approves the proposal. Costing procedures should reflect postal operations. The deployment and use of FSS has increased. MODS cost pools should be modified to reflect this operational reality. This is especially important since the Postal Service states that the mix of flat-shaped mail in FSS operations differs from the mail mix in AFSM 100 operations. This suggests that the distribution of attributable cost by product will differ between the operations. Thus, separate recognition via separate cost pools will ensure a more accurate distribution of cost to product. The Postal Service's proposal will make its costing procedures more representative of its operations.

IV. PROPOSAL SIX—ADDITIONAL “NON-MODS” MAIL PROCESSING COST POOLS

A. Postal Service Proposal

Proposal Six seeks to modify the mail processing cost model for non-MODS post offices by defining additional cost pools. The proposal establishes the following five additional cost pools within the non-MODS facility group:

1. PO BOX—represents activities of sorting mail into post office boxes. This cost pool corresponds to MODS LD44 cost pool.
2. BULKACCP—includes bulk mail acceptance operations. BULKACCP is similar to the MODS LD79 cost pool.
3. CFSCMU—consists of computer forwarding system/central mail markup operations. CFSCMU is similar to the LD49 cost pool in MODS group.
4. BUSREPLY—includes activities, such as business reply / postage due. It is analogous to the MODS LD42 cost pool.

5. OTH ACCT—is similar to the MODS LD48_SSV cost pool. It covers other accountable work, such as carriers' keys, scanners, and mail with certain special services.

Petition at 2.

Costs for sorting mail into post office boxes are currently assigned to the non-MODS manual distribution and allied labor cost pools. Costs of the remaining four new cost pools (*i.e.*, BULKACCP, CFSCMU, BUSREPLY, and OTH ACCT) are currently assigned to the miscellaneous (MISC) cost pool.

The Postal Service states that the proposed change will “improve alignment between MODS and non-MODS mail processing cost pools for post offices.” *Id.* at 15. The post office cost pools in the MODS and non-MODS groups are generally similar. However, some cost pools for MODS post offices under the established methodology are not directly comparable to the non-MODS group. Nevertheless, the five additional cost pools that would be established under Proposal Six would make the non-MODS cost pools more comparable and consistent with the current MODS cost pools.

Additionally, the Postal Service notes that “[s]eparating work for sorting mail to post office boxes from other manual distribution will help to distinguish shape-related work (e.g., casing letters and flats) from mixed-shape work at box sections”. *Id.* at 16. Currently, the cost of sorting mail into post office boxes is largely reflected in the shape-related manual distribution cost pools (*i.e.*, MANF, MANL, and MANP).

The proposed change also breaks out postage due and other accountable mail from the miscellaneous mail processing cost pool. This reduces the risk of misallocating the costs unrelated to reply mail or special services. *Id.* at 16-17. This change improves cost allocation “within the current non-MODS cost pool for miscellaneous operations.” *Id.* at 15.

In response to Chairman's Information Request (CHIR) No. 1, the Postal Service demonstrates that the proposed method would not materially change the statistical

reliability of mail processing cost estimates.¹⁴ As illustrated in Excel file “ChIR.1.Q.3.Attach.xls”, worksheet Tab “Table 1 Public”, the coefficient of variation (CV) for product volume-variable costs before and after the proposed change is not significantly different.¹⁵ In addition, the changes described in Proposal Six do not require modification of the In-Office Cost System (IOCS) since it already collects sufficient details to implement the changes.¹⁶ The Postal Service plans to implement the changes by modifying the IOCS SAS computer program that assigns tally costs to non-MODS cost pools. Response to CHIR No. 1 at 2. The basic method for calculating volume-variable costs for non-MODS cost pools and for distributing volume-variable costs to products will remain unchanged. *Id.* at 2.

The impact of the proposed methodological change on product volume-variable costs for C/S 3.1 inputs to the B workpapers is illustrated using 2010 ACR data. The volume-variable costs for some special services would be notably reduced. This may be a result of separating accountable work from other miscellaneous mail processing activities, thereby reducing the distribution of miscellaneous costs to special services. Petition at 17.

B. Participant Comments

Comments were filed by the Public Representative. The Public Representative states that “[t]he disaggregation in the cost pools seems reasonable.” PR Comments at 5. However, she contends that “if there are insufficient tallies (i.e., small sample) to support the disaggregation then costs could be misallocated.” *Id.* The Public Representative recommends the approval of Proposal Six if the disaggregated cost pools remain statistically reliable. *Id.*

¹⁴ Responses of the United States Postal Service to Questions 1-5 of Chairman’s Information Request No. 1, September 19, 2011, at 3 (Response to CHIR No. 1).

¹⁵ Coefficient of variation is the ratio of the standard deviation to the mean, and it can be used for comparing the degree of variation from one data series to another.

¹⁶ The cost pools for non-MODS facilities are identified using activities recorded in response to questions 18 and 19 in the IOCS.

C. Commission Analysis

Proposal Six seeks to modify the non-MODS mail processing cost pool by introducing five additional cost pools, including (1) sorting mail into post office boxes (PO BOX); (2) bulk mail acceptance activities (BULKACCP); (3) computer forwarding system activities (CFSCMU); (4) business reply mail activities (BUSREPLY); and (5) other accountable work (OTH ACCT). These additional cost pools are established by disaggregating some of the current non-MODS cost pools based on information recorded in response to IOCS questions 18 and 19, and by modifying the SAS computer program (*i.e.*, “NONMOD1”) that assigns tallies to different non-MODS cost pools.

The PO BOX cost pool is established out of the current MANF, MANL, MANP, and ALLIED non-MODS cost pools. Based on 2010 ACR data, about 66 percent of the PO BOX cost pool is reallocated from MANL cost pool, followed by 22 percent from MANF cost pool, and 10 percent from MANP cost pool. The other four additional costs pools (*i.e.*, BULKACCP, BUSREPLY, CFSCMU, and OTH ACCT) are isolated from the current miscellaneous (MISC) non-MODS cost pool. Based on 2010 ACR data, nearly 59 percent of the MISC cost pool is reallocated to these additional cost pools, the largest percent (53 percent) being allocated to the OTH ACCT cost pool.

The Commission concurs with the Postal Service that the formation of the five additional cost pools would improve the Postal Service’s costing for non-MODS facilities. First, the alignment between MODS and non-MODS mail processing cost pools for post offices will be improved. Consequently, non-MODS cost pools for post offices will have equivalent MODS cost pools. This should make it easier to identify the costs associated with post office functions without the need for special analyses. Second, costs within the current non-MODS cost pool for miscellaneous operations will be correctly assigned to the operations that incur them.

The proposal has notable effects on special services, especially on Collection on Delivery (COD), Certified Mail, Insurance, Other Ancillary Services, and Registered Mail. For example, a comparison of product level non-MODS cost estimates before and

after the change shows that Insurance costs are reduced by 44 percent, COD by 41 percent, and Certified Mail by 17 percent. These changes reflect appropriate cost allocation in non-MODS cost pools for miscellaneous operations.

The Commission finds that this proposed methodological change would improve product costing for non-MODS facilities, and more closely align MODS and non-MODS cost pools in post offices. Therefore, the Commission approves Proposal Six.

V. PROPOSAL SEVEN—CHANGE TO MIXED-MAIL DISTRIBUTION KEY FOR MODS ALLIED LABOR COST POOLS

A. Postal Service Proposal

The Postal Service proposes to modify the current distribution key used to allocate mixed-mail allied labor costs at MODS facilities to products.¹⁷ Currently, these costs are distributed to products using distribution keys based on the sum of IOCS direct tallies across all MODS cost pools. The Postal Service notes that the current method may lead to a bias in cost distribution by pooling IOCS direct tallies from all MODS operations, including MODS Function 1 (mail processing plant), MODS Function 4 (post office) operations, and the ISC function.

Under Proposal Seven, the Postal Service intends to use only IOCS direct tallies from all MODS Function 1 cost pools. Thus, the proposed methodology excludes post office and ISC direct tallies. According to the Postal Service, products that are presorted and/or dropped-shipped to destination delivery units (DDUs) create direct tallies at MODS post offices. These direct tallies, when used to distribute MODS allied mixed-mail labor costs, disproportionately assign mixed-mail costs to those products that bypassed the plants. The Postal Service contends that the proposed methodology will reduce the bias inherent in the current procedure. Petition at 20.

¹⁷ There are twelve allied MODS cost pools representing costs accrued from allied labor operations. Allied labor operations involve two principal functions: (1) preparing mail for distribution operations in the plant, and (2) processing mail that may not require handling in piece sorting operations (*i.e.*, presort mail). Distribution keys indicate proportions of the volume-variable costs within a cost pool to be assigned to each product.

The proposal also intends to avoid the risk of disproportionate allocation of costs to certain international products by excluding ISC direct tallies from the calculation of mixed-mail distribution keys for MODS allied labor costs. *Id.* The Postal Service notes that ISC operations involve more manual processing than corresponding domestic plant operations, and ISC direct tallies reflect costs of sorting and related mail processing activities for international mail products that are not often observed in domestic mail operations. It argues that excluding ISC direct tallies from MODS allied mixed-mail cost distributions avoids the potential bias that may occur in allocating plant costs to certain international products. *Id.*

The Postal Service submitted an Excel file illustrating the impact of the proposed change on Cost Segment Component 3.1 inputs into the B workpapers using Docket No. ACR2010 data. The Postal Service states that the percent of volume-variable costs for each of the allied cost pools do not change from those shown in the 2010 ACR. However, the proposed method results in cost reductions for highly presorted and/or drop-shipped products, package service products, and international mail. *Id.* at 22.

B. Participant Comments

Only the Public Representative filed comments. She states that Proposal Seven is logical. PR Comments at 6. However, she contends the Postal Service fails to demonstrate that the removal of bypass and ISC mail will improve the accuracy of the “all pools” distribution keys relative to the established distribution keys. *Id.* at 6-7. She suggests that the Commission approve the proposal only after evaluating the accuracy of the proposed distribution key compared to the current distribution key.

C. Commission Analysis

Proposal Seven involves a change in the methodology for calculating mixed-mail distribution keys for MODS allied labor cost pools. Under the current methodology, MODS mixed-mail labor costs in each allied cost pool are distributed to products based on the aggregate IOCS direct tallies of the same shape in all cost pools in the MODS

facility group.¹⁸ The same distribution key is applied to the mixed-mail costs in any allied cost pool, irrespective of the nature of the operations. The Postal Service proposes to calculate “all pools” mixed-mail distribution keys for MODS allied labor cost using only IOCS direct tallies from MODS cost pools associated with MODS Function 1 (mail processing plant), excluding tallies associated with MODS Function 4 (post offices) and ISC cost pools.

The Commission agrees that the proposed change should reduce potential bias in the distribution keys and distribution of costs by excluding MODS post offices and ISC tallies. Post office tallies may include products that bypass plant processing operations. ISC tallies represent specialized operations with a product mix that differs from that found in operations at processing plants. Therefore, excluding these tallies from mixed-mail distribution keys reduces the likelihood that allied mixed-mail labor costs will be disproportionately assigned to highly workshared and international mail.

Excel file “Props.6&7.Mail.Proc. Impact.xls” illustrates the impact of the proposed change on product volume-variable costs for C/S 3.1 inputs to the B workpapers based on Docket No. ACR 2010 data. Tab “P7. F1 allied mixed-mail impact” of this Excel file shows that the effect of the proposal is to shift costs away from presorted and/or dropped-shipped mail, and international products. For example, the volume-variable costs of international mail, Standard High Density and Saturation Flats & Parcels, and Within County Periodicals are reduced by about 4.8 percent, 4.0 percent, and 3.5 percent, respectively.¹⁹ The costs of Presort Parcels and Standard Regular Not Flat-Machinables & Parcels are also notably reduced as a result of the proposed change.

¹⁸ USPS, Summary Description of USPS Development of Costs by Segments and Components, Fiscal Year 2010, at 3-8.

¹⁹ Not-handling costs are distributed using direct and distributed mixed-mail tallies. The Postal Service, in its response to CHIR No. 1, confirmed that the impact of Proposal Seven on product volume-variable costs, as reported in “Props.6&7.Mail.Proc.Impact.xls,” incorporate any potential impacts that arise from changes in distribution of not-handling costs. Response to CHIR No. 1 at 12.

The Commission agrees with the Postal Service that including the direct tallies associated with post offices and ISCs in calculating mixed-mail distribution keys for MODS allied labor costs may lead to biased distribution of costs to products. Removing those direct tallies is a more accurate approach to preparing the mixed-mail distribution keys for MODS allied labor costs. As indicated above, the Public Representative recommends the approval of the proposal only after evaluating the accuracy of the proposed distribution key. The distribution keys, in the proposed method, will be calculated using fewer tallies. However, the effect of removing those tallies on the statistical reliability of the estimates should be minimal. The Commission believes that the benefits from using the proposed approach outweigh the loss of statistical reliability from removing those tallies from the distribution key. The Commission finds that this methodological change improves the distribution of MODS allied mixed-mail labor costs to products. Therefore, the Commission accepts Proposal Seven.

VI. PROPOSAL EIGHT—NEW TREATMENT OF EXPRESS MAIL AS ACCOUNTABLE MAIL ON CITY CARRIER LETTER ROUTES

A. Postal Service Proposal

The Postal Service proposes to modify the manner in which delivery scanning costs are attributed to the delivery of Express Mail where the sender waives the signature requirement. At the time of the 2009 ACR, the Postal Service required letter carriers to attempt to obtain a signature for all Express Mail, even if the sender had waived the signature requirement. This requirement made Express Mail an accountable item and costs related to accountables were attributed to it based on volume.

Because the Postal Service no longer requires carriers to attempt to obtain a signature for Express Mail if the sender has waived the signature requirement, it maintains Express Mail with a Signature Waiver should not be classified as accountable mail and should not be apportioned any costs related to accountables. Accordingly, the Postal Service proposes to modify its attribution procedure to reflect the change in postal operations. Petition at 23.

The proposed methodological change would reduce the volume of Express Mail treated as accountable mail by the number of pieces that do not require a signature. The Postal Service identified the volume of Accountables, Large Parcels, Small Parcels, Letters, and Flats, that fall into this category.²⁰ The proposal would reduce Express Mail's attributable delivery costs by nearly \$1 million, which is a 2.3 percent decrease in unit attributable costs. It would also increase attributable delivery costs by \$145,000 and decrease non-attributable delivery costs by the same amount.²¹

B. Participant Comments

The Public Representative comments that because the Postal System can now distinguish between the costs of Express Mail that requires a signature and the costs of Express Mail that does not, it would be unfair not to remove the scanning and paperwork costs of Express Mail that requires a signature from the portion of Express Mail that does not incur these accountable mail costs. PR Comments at 8.

C. Commission Analysis

The Commission approves the proposed methodology. It reflects changes in postal operations. It is also consistent with procedures approved in Docket No. RM2009-10, proposal six related to the waiver of a signature for insured mail. See Docket No. RM2009-10, Order No. 339.

It is ordered:

²⁰ USPS-RM2011-12/NP2 - Expanded Nonpublic Impact Discussion Regarding Proposal Eight.

²¹ The Postal Service's filing says the unit cost reduction is less than three-tenths of a percent, but its recent response to CHIR No. 2 shows a 2.3 percent reduction in the unit attributable cost of Express Mail. See USPS-RM2011-12/NP4 - Nonpublic Material Regarding Proposal Eight Provided in Response to Question 1 CHIR No. 2 (Non-Public), File: USPS-FY10-NP14-CS06and07-NP.xlsm, Sheet: Compare to ACR2010.

For purposes of periodic reporting to the Commission, the Commission accepts the changes in analytical principles proposed by the Postal Service in Proposals Four through Eight in Docket No. RM2011-12 as set forth in the body of this Order.

By the Commission.

Shoshana M. Grove
Secretary